

## **Monthly Economic and Financial Developments January 2005**

In an effort to provide the public with more frequent information on its economic surveillance activities, the Central Bank has decided to release monthly reports on economic and financial sector developments in The Bahamas. The Bank monitors these conditions as part of its monetary policy mandate, to assess whether money and credit trends are sustainable relative to levels of external reserves required to protect the value of the Bahamian dollar and, if not, the degree to which credit policies ought to be adjusted. The main data source for this surveillance is financial institutions' daily reports on foreign exchange transactions and weekly balance sheet statements. Therefore, monthly approximations may not coincide with calendar estimates reported in the Central Bank's quarterly reports. The Central Bank will release its "Monthly Economic and Financial Developments" report on the Monday following its monthly Monetary Policy Committee Meeting.

Future Release Dates:

2005: April 4th, May 2nd, May 30th, July 4th, August 2nd, August 29th, October 3rd, October 31st, November 28th

## **1. Domestic Economic Developments**

Indications are that the Bahamian economy continued to expand at a strengthening pace during the first month of the year. Compared to January 2004, foreign currency inflows through the banking sector were significantly elevated, resulting in a larger seasonal build-up in external reserves and bank liquidity. Developments were mainly attributed to ongoing robustness in tourism, particularly in New Providence and the Family Islands. Although monthly private sector credit trends were more expansionary, mortgage gains slowed, contrasting with more relaxed conditions for consumer loans and other private flows.

Fiscal sector trends continued to reflect the revenue and expenditure strains imposed by the September 2004 hurricanes, with the overall deficit in the first half of the Fiscal year increased to \$83.9 million from \$53.1 million in the first half of FY2003/04. Indicative of the heightened calendar year financing needs, the Government's Direct Charge rose during January – December 2004 by 8.3% to \$2,101.0 million, as compared to an increase of 7.4% in 2003, reflecting a marginal net repayment (1.5%) on foreign currency debt, and a larger net increase (10.1%) in Bahamian dollar obligations. Nevertheless, the comparative gap is expected to narrow, as highlighted by the improved revenue intake during October-December, which resulted in a second quarter shortfall that was unchanged from the previous year.

Positive trends in the United States continue to support a healthy outlook for the domestic economy in 2005, and are expected to sustain steady growth in tourism. The construction sector remains poised to benefit from stronger foreign investment inflows, continued expenditures on hurricane repairs over the first half of the year, and sustained housing investment activity.

## **2. International Economic Developments**

Although economic growth in most major industrialized countries trended lower towards the end of 2004, a healthy outlook was maintained for 2005. In the United States, despite softer than expected growth in the final quarter of 2004, the economy posted a firmer gain for the year, and the Federal Reserve expects the expansion to continue at a steadied pace over the next two years. With more of the momentum generated from business spending and investments, the Fed projects real annual growth for the United States in the range of 3.5%-4.0% for 2005 and 3.25% - 3.75% for 2006, accompanied by softening in the average unemployment rate to within ranges of 5.0% - 5.5% and 5.0% - 5.25%, respectively during this period. Equally, over the next two years, inflation on non-food and energy products in the United States is expected to stabilize near the 1.6% rate posted in 2004, favouring the Fed's preference for gradual tightening of interest rates. Along these lines, on February 2, the Fed agreed to another 25 basis points increase in interest rates. In contrast, official rates were held steady in Europe and Japan, where demand conditions were less robust. Nevertheless, in his semi-annual testimony before the US Congress, on February 16, Fed Chairman Alan Greenspan highlighted concerns about the detrimental effects that the rising federal deficit could have on the value of the US currency and future growth.

Although it still reflected broadly a depreciated position for the last 12 months, higher interest rates on dollar denominated assets stimulated some up-tick in the value of the US currency during January. However, major equity market indices recorded mixed movements.

In energy markets, seasonal factors including more extreme winter conditions in North America and Europe, boosted crude oil prices close to \$50 per barrel in January. Nevertheless, the likelihood of any short-term intervention by OPEC diminished, after the Cartel temporarily suspended its target price band for crude oil, taking the view that prices, which had remained outside the \$22-\$28 per barrel range for over a year, reflected fundamental changes in the market.

### **3. Recent Monetary and Credit Trends (January 2005)**

Monetary and credit trends during January featured strong seasonal growth in Bahamian dollar deposits, outpacing the advance in Bahamian dollar credit. Larger increases were recorded in both external reserves and bank liquidity.

#### **January 2005 vs. 2004**

During January, excess reserves of the banking system rose by \$18.1 million to \$309.5 million, after being unchanged at \$168.2 million in 2004. Also, banks' excess liquid assets increased by \$67.8 million to \$292.2 million, compared to a relatively stable \$138.3 million last year.

External reserves expanded more robustly by \$52.9 million as compared to \$17.9 million in 2004. Underpinning this result, the Central Bank's net foreign currency purchases widened to \$51.3 million from \$16.6 million, reflecting a nearly three-fold rise in the net intake from commercial banks to \$57.8 million, as compared to moderately increased net sales to the public sector of \$6.5 million. Commercial banks' net foreign currency purchases from customers firmed to \$53.0 million from \$22.8 million the previous year, as the 49.0% growth in total purchases to \$292.6 million outpaced a 37.9% rise in sales to \$239.6 million. Exchange Control data indicated that the banking sector's increased foreign currency sales corresponded to higher outflows for non-oil imports.

Bahamian dollar credit expansion accelerated to \$65.2 million from \$4.5 million in January 2004. With Treasury bill holdings shifted towards the National Insurance Board (NIB), monthly growth in net credit to Government more than doubled to \$46.9 million. Private sector credit rose by \$22.0 million, following a January 2004 reduction of \$9.2 million when the credit ceiling was in place. While this included a halving in mortgages gains to \$13.5 million and an unchanged level of consumer credit, it was otherwise indicative of more relaxed conditions for other private sector lending. Credit to the rest of the public sector contracted further by a \$3.8 million.

Domestic foreign currency credit growth slowed to \$16.1 million from \$44.7 million in January 2004. Private sector credit expansion was halved to \$18.4 million, while net claims on the public sector decreased by \$2.3 million, in contrast to last year's expansion of \$9.2 million.

Bahamian dollar deposits growth during January firmed to \$90.4 million from \$64.3 million in 2004. Demand deposits gains more than doubled to \$62.4 million, and overshadowed tempered growth in savings and fixed deposits of \$8.6 million and \$19.4 million, respectively.

In interest rate developments, the weighted average deposit rate at banks was approximately stable at 3.73%, with the highest rate offered being 5.0% for fixed maturities over 1 month. The weighted average loan rate was also unchanged at 10.54%.

#### **4. Outlook**

Growth prospects are expected to strengthen during 2005 as inflows from tourism and foreign investments continue to experience strong development. The tourism sector outlook is favoured, in the short-term, by supportive conditions in the US including the weak dollar, to be joined in the medium term by the increase in hotel sector capacity, and the expectation of continued robust levels of foreign investment inflows. Further gains are expected in external reserves during the course of the year, although on a more tempered basis, in light of more expansionary credit conditions. The economic climate remains favourable for a stable to consolidating trend in the public sector's finances, and steady improvement in the asset quality of domestic banks.

# Recent Monetary and Credit Statistics

(B\$ Millions)

	<b>JANUARY</b>					
	Value		Change		Change YTD	
	2004	2005	2004	2005	2004	2005
<b>1.0 LIQUIDITY &amp; FOREIGN ASSETS</b>						
1.1 Excess Reserves	168.22	307.49	-0.15	16.10	-0.15	16.10
1.2 Excess Liquid Assets	138.27	292.78	1.23	68.34	1.23	68.34
1.3 External Reserves	499.98	718.11	17.88	53.46	17.88	53.46
1.4 Bank's Net Foreign Assets	-624.39	-623.34	-37.94	-33.59	-37.94	-33.59
1.5 Usable Reserves	235.71	326.95	8.59	27.41	8.59	27.41
<b>2.0 DOMESTIC CREDIT</b>						
<b>2.1 Private Sector</b>	<b>4,097.75</b>	<b>4,365.38</b>	<b>26.26</b>	<b>40.46</b>	<b>26.26</b>	<b>40.46</b>
a. B\$ Credit	3,690.65	3,971.19	-9.24	22.04	-9.24	22.04
of which: Consumer Credit	1,363.41	1,480.45	-16.89	-0.02	-16.89	-0.02
Mortgages	1,460.06	1,650.28	27.24	13.58	27.24	13.58
b. F/C Credit	407.11	394.20	35.50	18.42	35.50	18.42
of which: Mortgages	10.38	11.96	-0.27	0.19	-0.27	0.19
<b>2.2 Central Government (net)</b>	<b>529.30</b>	<b>600.96</b>	<b>20.70</b>	<b>48.28</b>	<b>20.70</b>	<b>48.28</b>
a. B\$ Loans & Securities	622.59	716.96	21.58	63.86	21.58	63.86
Less Deposits	100.64	111.35	3.41	16.92	3.41	16.92
b. F/C Loans & Securities	8.01	0.00	0.00	0.00	0.00	0.00
Less Deposits	0.66	4.65	-2.54	-1.34	-2.54	-1.34
<b>2.3 Rest of Public Sector</b>	<b>370.97</b>	<b>336.11</b>	<b>2.20</b>	<b>-7.42</b>	<b>2.20</b>	<b>-7.42</b>
a. B\$ Credit	114.37	111.69	-4.46	-3.78	-4.46	-3.78
b. F/C Credit	256.60	224.42	6.66	-3.65	6.66	-3.65
<b>2.4 Total Domestic Credit</b>	<b>4,998.02</b>	<b>5,302.45</b>	<b>49.17</b>	<b>81.32</b>	<b>49.17</b>	<b>81.32</b>
a. B\$ Domestic Credit	4,326.97	4,688.49	4.47	65.20	4.47	65.20
b. F/C Domestic Credit	671.05	613.97	44.70	16.12	44.70	16.12
<b>3.0 DEPOSIT BASE</b>						
3.1 Demand Deposits	765.92	1,023.19	25.90	62.44	25.90	62.44
a. Central Bank	45.52	128.84	26.13	46.46	26.13	46.46
b. Banks	720.40	894.35	-0.23	15.98	-0.23	15.98
3.2 Savings Deposits	693.44	786.18	15.01	4.80	15.01	4.80
3.3 Fixed Deposits	2,332.98	2,431.77	23.34	19.35	23.34	19.35
3.4 Total B\$ Deposits	3,792.34	4,241.14	64.25	86.59	64.25	86.59
3.5 F/C Deposits of Residents	98.18	85.13	0.43	-0.92	0.43	-0.92
<b>3.6 M2</b>	<b>3,943.65</b>	<b>4,406.75</b>	<b>55.28</b>	<b>70.75</b>	<b>55.28</b>	<b>70.75</b>
<b>3.7 External Reserves/M2</b>	<b>0.13</b>	<b>0.16</b>	<b>0.00</b>	<b>0.01</b>	<b>0.00</b>	<b>0.01</b>
	Value		Year to Date		Change	
	2004	2005	2004	2005	Month	YTD
<b>4.0 FOREIGN EXCHANGE TRANSACTIONS</b>						
<b>4.1 Central Bank Net Purchase/(Sale)</b>	<b>16.64</b>	<b>51.26</b>	<b>16.64</b>	<b>51.26</b>	<b>34.62</b>	<b>34.62</b>
a. Net Purchase/(Sale) from/to Banks	19.41	57.80	19.41	57.80	38.39	38.39
i. Sales to Banks	21.16	19.11	21.16	19.11	-2.06	-2.06
ii. Purchases from Banks	40.57	76.91	40.57	76.91	36.34	36.34
b. Net Purchase/(Sale) from/to Others	-2.77	-6.54	-2.77	-6.54	-3.77	-3.77
i. Sales to Others	19.82	23.76	19.82	23.76	3.94	3.94
ii. Purchases from Others	17.05	17.22	17.05	17.22	0.18	0.18
<b>4.2 Banks Net Purchase/(Sale)</b>	<b>22.76</b>	<b>53.17</b>	<b>22.76</b>	<b>53.17</b>	<b>30.41</b>	<b>30.41</b>
a. Sales to Customers	173.67	240.06	173.67	240.06	66.39	66.39
b. Purchases from Customers	196.43	293.23	196.43	293.23	96.80	96.80
<b>4.3 B\$ Position (change)</b>	<b>-11.61</b>	<b>-0.19</b>				
<b>5.0 EXCHANGE CONTROL SALES</b>						
<b>5.1 Current Items</b>	<b>186.54</b>	<b>198.54</b>	<b>186.54</b>	<b>198.54</b>	<b>12.00</b>	<b>12.00</b>
of which Public Sector	21.29	17.65	21.29	17.65	-3.64	-3.64
a. Nonoil Imports	88.80	112.60	88.80	112.60	23.80	23.80
b. Oil Imports	29.70	12.85	29.70	12.85	-16.85	-16.85
c. Travel	17.25	16.15	17.25	16.15	-1.10	-1.10
d. Factor Income	3.96	3.17	3.96	3.17	-0.79	-0.79
e. Transfers	4.24	4.06	4.24	4.06	-0.19	-0.19
f. Other Current Items	42.59	49.72	42.59	49.72	7.13	7.13
<b>5.2 Capital Items</b>	<b>17.32</b>	<b>21.31</b>	<b>17.32</b>	<b>21.31</b>	<b>3.99</b>	<b>3.99</b>
of which Public Sector	5.96	2.73	5.96	2.73	-3.23	-3.23
<b>5.3 Bank Remittances</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

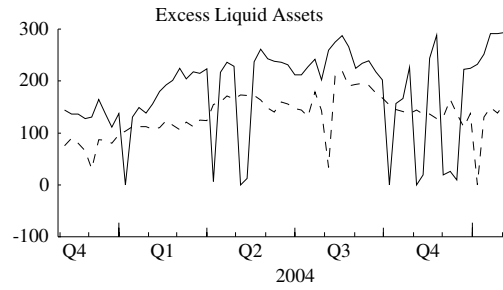
Sources: Research Department Weekly Brief Database and Banking Brief for the weeks ending: JANUARY 28, 2004 and FEBRUARY 02, 2005

Exchange Control Sales figures are as at month end.

Notes: 1.0, 2.0 and 3.0 YTD change reflects change of current month over previous year end; for 4.0 and 5.0 change is over corresponding period of previous year.

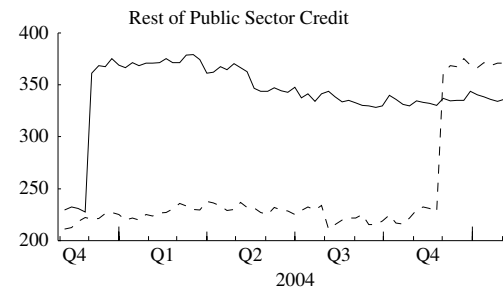
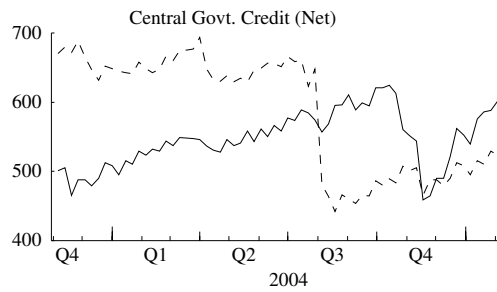
Components may not sum to totals due to round-off error.

## SELECTED MONEY AND CREDIT INDICATORS (B\$ Millions)



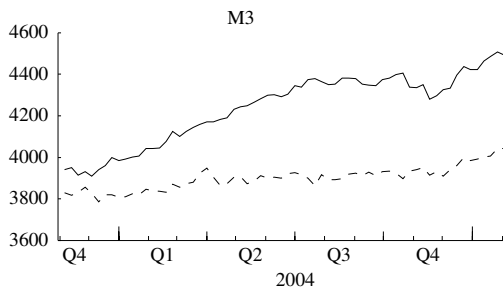
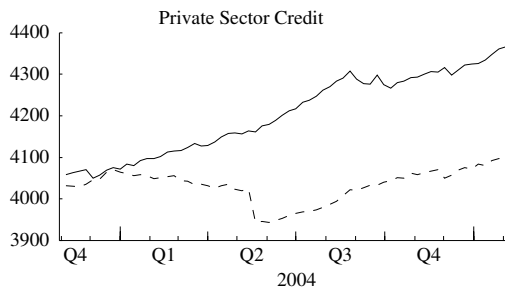
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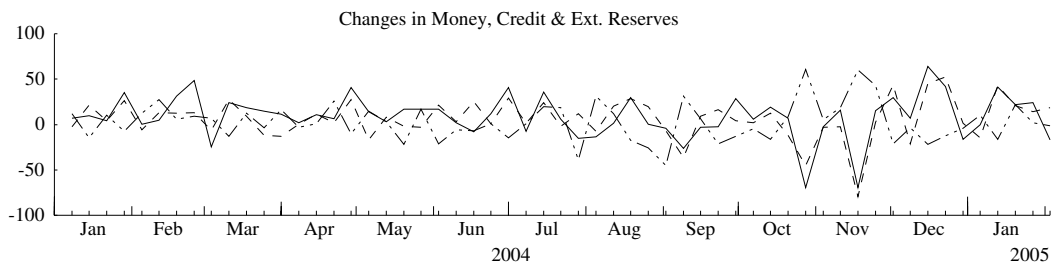
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— M3  
- - - Domestic Credit  
... External Reserves

## Selected International Statistics

<b>A: Selected Macroeconomic Projections (Annual % Change and % of labor force)</b>						
	Real GDP		Inflation Rate		Unemployment	
	2004	2005	2004	2005	2004	2005
Bahamas	3.0	3.5	2.5	2.0	10.0	n/a
United States	4.3	3.5	2.4	2.6	5.5	5.4
Euro-Area	2.2	2.2	2.0	2.0	9.0	8.7
<i>Germany</i>	<i>2.0</i>	<i>1.8</i>	<i>1.1</i>	<i>1.2</i>	<i>9.7</i>	<i>9.5</i>
Japan	4.4	2.3	-2.5	-1.3	4.7	4.5
United Kingdom	3.4	2.5	2.7	2.9	4.8	4.8
Canada	2.9	3.1	3.0	2.2	7.2	6.8

*Source: IMF World Economic Outlook, September 2004; Department of Statistics*

<b>B: Official Interest Rates - Selected Countries (%)</b>					
<i>With effect from</i>	CBOB	ECB (EU)	Federal Reserve (US)		Bank of England
	Bank Rate	Refinancing Rate	Primary Credit Rate	Target Funds Rate	Repo Rate
<i>December 2003</i>	5.75	2.00	2.00	1.00	3.75
January 2004	5.75	2.00	2.00	1.00	4.00
February 2004	5.75	2.00	2.00	1.00	4.00
March 2004	5.75	2.00	2.00	1.00	4.00
April 2004	5.75	2.00	2.00	1.00	4.25
May 2004	5.75	2.00	2.00	1.00	4.50
June 2004	5.75	2.00	2.25	1.25	4.50
July 2004	5.75	2.00	2.25	1.25	4.75
August 2004	5.75	2.00	2.50	1.50	4.75
September 2004	5.75	2.00	2.75	1.75	4.75
October 2004	5.75	2.00	2.75	1.75	4.75
November 2004	5.75	2.00	3.00	2.00	4.75
December 2004	5.75	2.00	3.25	2.25	4.75
January 2005	5.75	2.00	3.25	2.25	4.75

Note: \*\* The Us Federal Reserve established primary and secondary credit rates on January 6 2003, and ceased use of the discount rate.

## Selected International Statistics

<b>C. Selected Currencies (Per United States Dollars)</b>						
<b>Currency</b>	<b>Jan-04</b>	<b>Dec-04</b>	<b>Jan-05</b>	<b>Mthly % Change</b>	<b>YTD % Change</b>	<b>12-Mth% Change</b>
Euro	0.8014	0.7378	0.767	3.96	3.96	-4.29
Yen	105.71	102.63	103.7	1.04	1.04	-1.90
Pound	0.5483	0.5213	0.5311	1.87	1.88	-3.14
Canadian \$	1.3525	1.2019	1.2398	3.15	3.15	-8.33
Swiss Franc	1.2565	1.1403	1.1889	4.26	4.26	-5.38

*Source: Bloomberg*

<b>D. Selected Commodity Prices (\$)</b>					
<b>Commodity</b>	<b>January 2004</b>	<b>December 2004</b>	<b>January 2005</b>	<b>Mthly % Change</b>	<b>YTD % Change</b>
Gold / Ounce	402.45	438.45	422.6	-3.62	-3.62
Silver / Ounce	6.23	6.82	6.72	-1.47	-1.47
Oil / Barrel	29.59	39.9	45.63	14.36	14.36

*Source: Bloomberg*

<b>E. Equity Market Valuations – January 2005 (%chg)</b>							
	<b>BISX</b>	<b>DJIA</b>	<b>S&amp;P 500</b>	<b>FTSE 100</b>	<b>CAC 40</b>	<b>DAX</b>	<b>Nikkei 225</b>
1 month	0.07	-2.72	-2.53	0.79	2.42	-0.03	-0.88
3 month	1.51	4.61	4.52	4.93	5.58	7.44	5.72
YTD	0.07	-2.72	-2.53	0.79	2.42	-0.03	-0.88
12-month	16.37	0.02	4.43	10.51	7.57	4.84	5.60

*Sources: Bloomberg and BISX*

<b>F: Short Term Deposit Rates in Selected Currencies (%)</b>			
	<b>USD</b>	<b>GBP</b>	<b>EUR</b>
<b>o/n</b>	2.51	4.85	2.06
<b>1 Month</b>	2.53	4.75	2.07
<b>3 Month</b>	2.75	4.8	2.10
<b>6 Month</b>	2.96	4.88	2.12
<b>9 Month</b>	3.16	4.92	2.19
<b>1 year</b>	3.32	4.95	2.26

*Source: Bloomberg, as at February 14, 2004*



## SUMMARY ACCOUNTS OF THE CENTRAL BANK

(B\$ Millions)

	VALUE												CHANGE											
	Dec. 01	Dec. 08	Dec. 15	Dec. 22	Dec. 29	Jan. 05	Jan. 12	Jan. 19	Jan. 26	Dec. 01	Dec. 08	Dec. 15	Dec. 22	Dec. 29	Jan. 05	Jan. 12	Jan. 19	Jan. 26						
<b>I. External Reserves</b>	667.01	667.95	669.24	675.62	664.65	670.41	688.55	709.24	707.72	-8.12	0.94	1.30	6.38	-10.97	5.76	18.14	20.69	-1.52						
<b>II. Net Domestic Assets (A + B + C + D)</b>	11.42	2.04	-13.48	-15.48	-24.06	-31.01	-76.51	-77.49	-73.99	-1.11	-9.38	-15.53	-2.00	-8.58	-6.95	-45.50	-0.98	3.50						
<b>A. Net Credit to Gov't (i + ii + iii - iv)</b>	140.81	142.34	142.52	143.32	142.72	143.34	140.35	138.98	140.48	-0.60	1.53	0.18	0.80	-0.60	0.62	-2.99	-1.38	1.50						
i) Advances	71.02	71.02	71.02	71.02	71.02	71.02	71.02	71.02	71.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00						
ii) Registered Stock	79.12	79.08	78.90	78.53	78.50	78.51	78.30	78.21	78.03	-0.01	-0.05	-0.18	-0.37	-0.03	0.01	-0.21	-0.10	-0.18						
iii) Treasury Bills	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00						
iv) Deposits	9.33	7.75	7.40	6.23	6.80	6.19	8.97	10.25	8.57	0.59	-1.58	-0.35	-1.17	0.58	-0.61	2.78	1.28	-1.68						
<b>B. Rest of Public Sector (Net) (i + ii - iii)</b>	-39.63	-50.51	-63.16	-66.51	-74.81	-80.45	-126.41	-125.26	-123.04	-0.75	-10.88	-12.66	-3.35	-8.30	-5.64	-45.95	1.14	2.23						
i) BDB Loans	7.58	7.58	7.58	7.58	7.58	7.58	7.51	7.51	7.51	0.00	0.00	0.00	0.00	0.00	0.00	-0.06	0.00	0.00						
ii) BMC Bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00						
iii) Deposits	47.20	58.08	70.74	74.09	82.38	88.03	133.92	132.78	130.55	0.75	10.88	12.66	3.35	8.30	5.64	45.89	-1.14	-2.23						
<b>C. Loans to/Deposits with Banks</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00						
<b>D. Other Items (Net)*</b>	-89.76	-89.80	-92.84	-92.29	-91.97	-93.90	-90.46	-91.20	-91.43	0.24	-0.03	-3.05	0.55	0.32	-1.93	3.44	-0.74	-0.23						
<b>III. Monetary Base</b>	678.43	669.99	655.76	660.14	640.58	639.40	612.04	631.75	633.73	-9.22	-8.44	-14.23	4.38	-19.55	-1.18	-27.36	19.71	1.98						
A. Currency in Circulation	238.26	242.81	242.16	268.35	267.06	246.01	226.19	220.46	223.55	7.92	4.56	-0.65	26.19	-1.29	-21.05	-19.82	-5.74	3.10						
B. Bank Balances with CBOB	440.17	427.17	413.60	391.79	373.52	393.39	385.85	411.30	410.17	-17.14	-13.00	-13.57	-21.81	-18.26	19.86	-7.54	25.45	-1.12						

\* Includes capital, provisions and surplus account, fixed and other assets, and other demand liabilities of Bank

